

# Washington State: Economic and Revenue Outlook

Presented to  
Council of Presidents

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Chief Economist & Executive Director

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Seattle, Washington



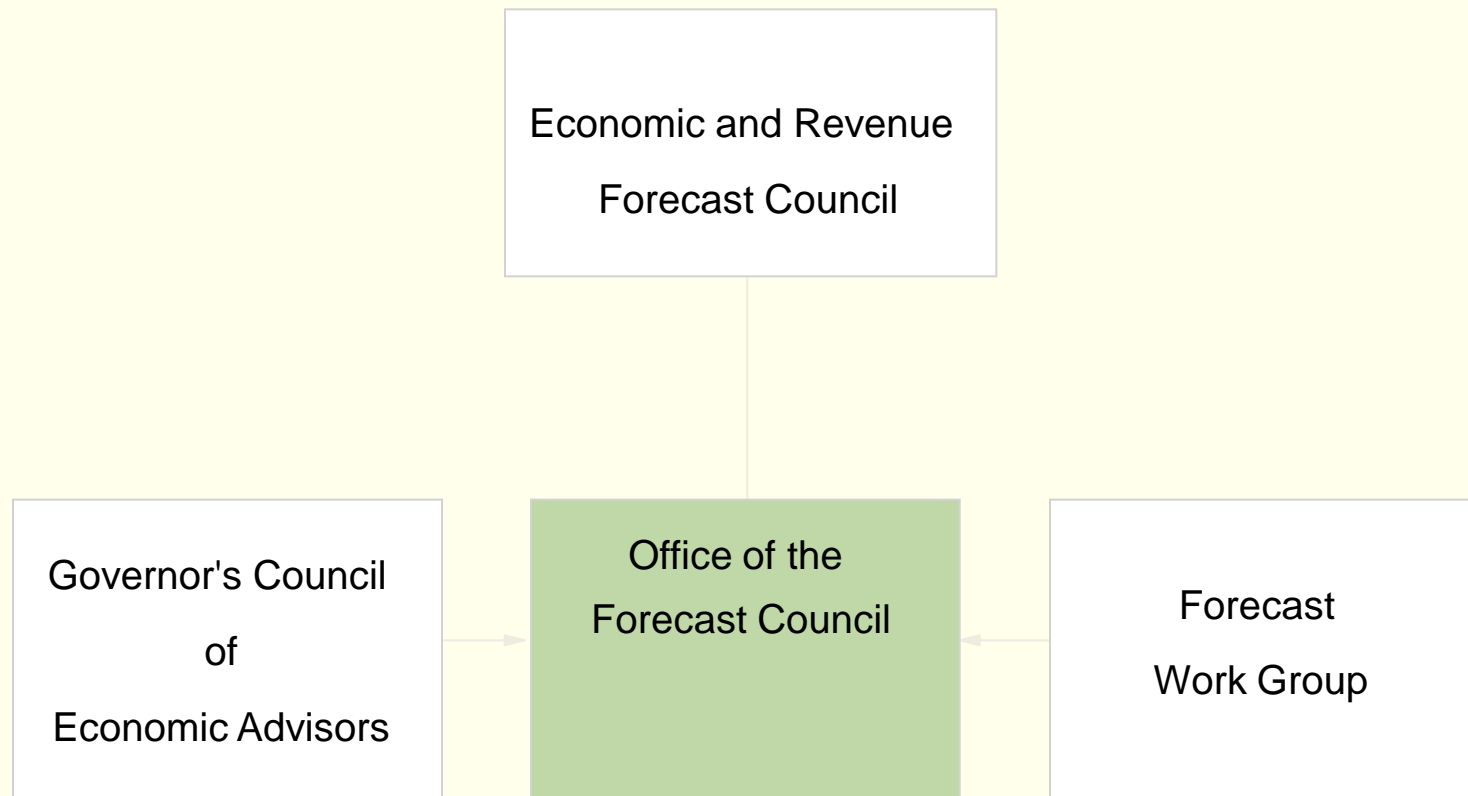
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ECONOMIC AND REVENUE FORECAST COUNCIL**



# Forecast Oversight

## **ERFC**

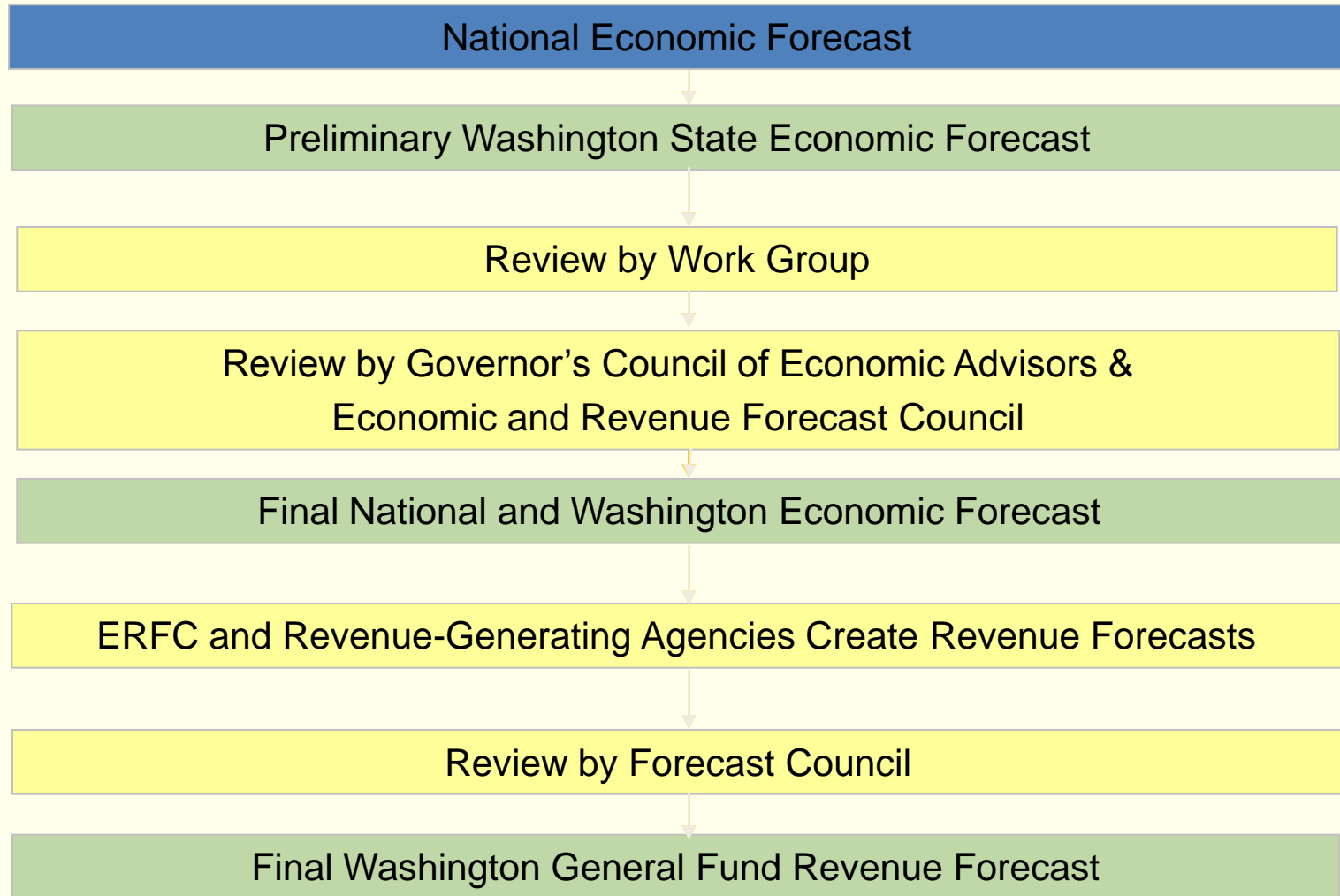
- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





# ERFC Forecast Process

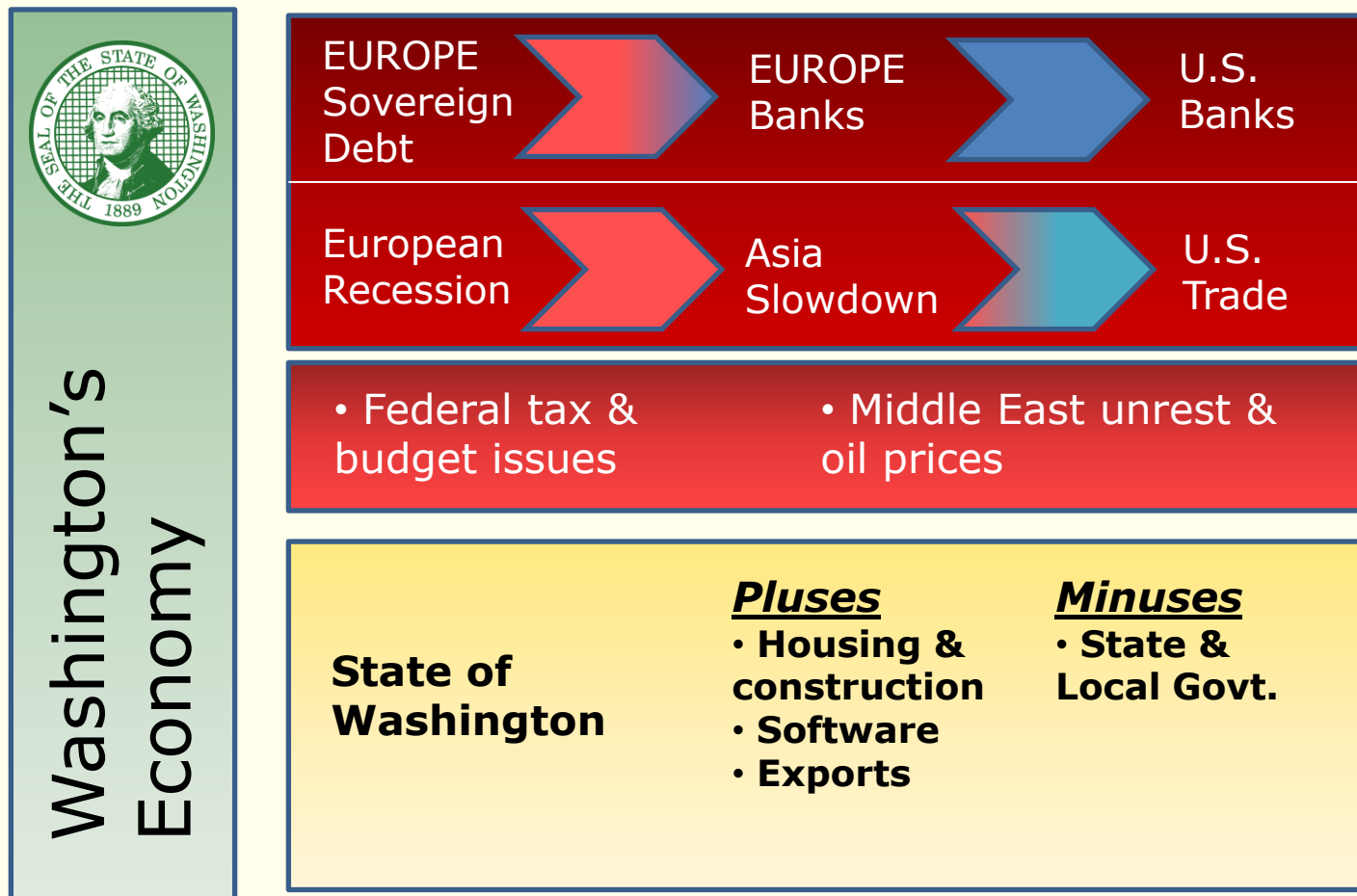
The national economic forecast is provided by Global Insight



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# The state's risk matrix shows most risks from outside state



Source: ERFC

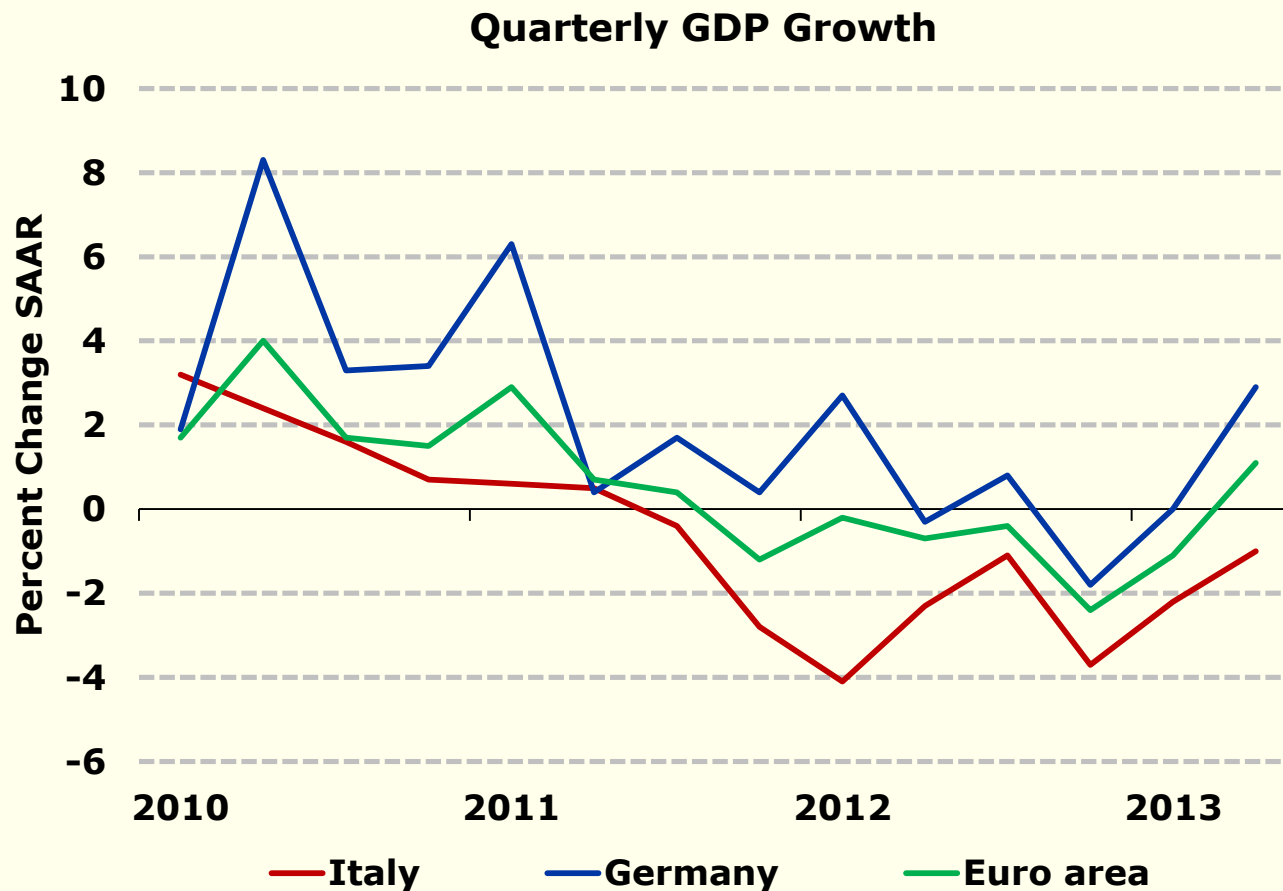


# Euro area GDP has returned to positive growth

Eurozone  
Forecast:

2013: -0.6%

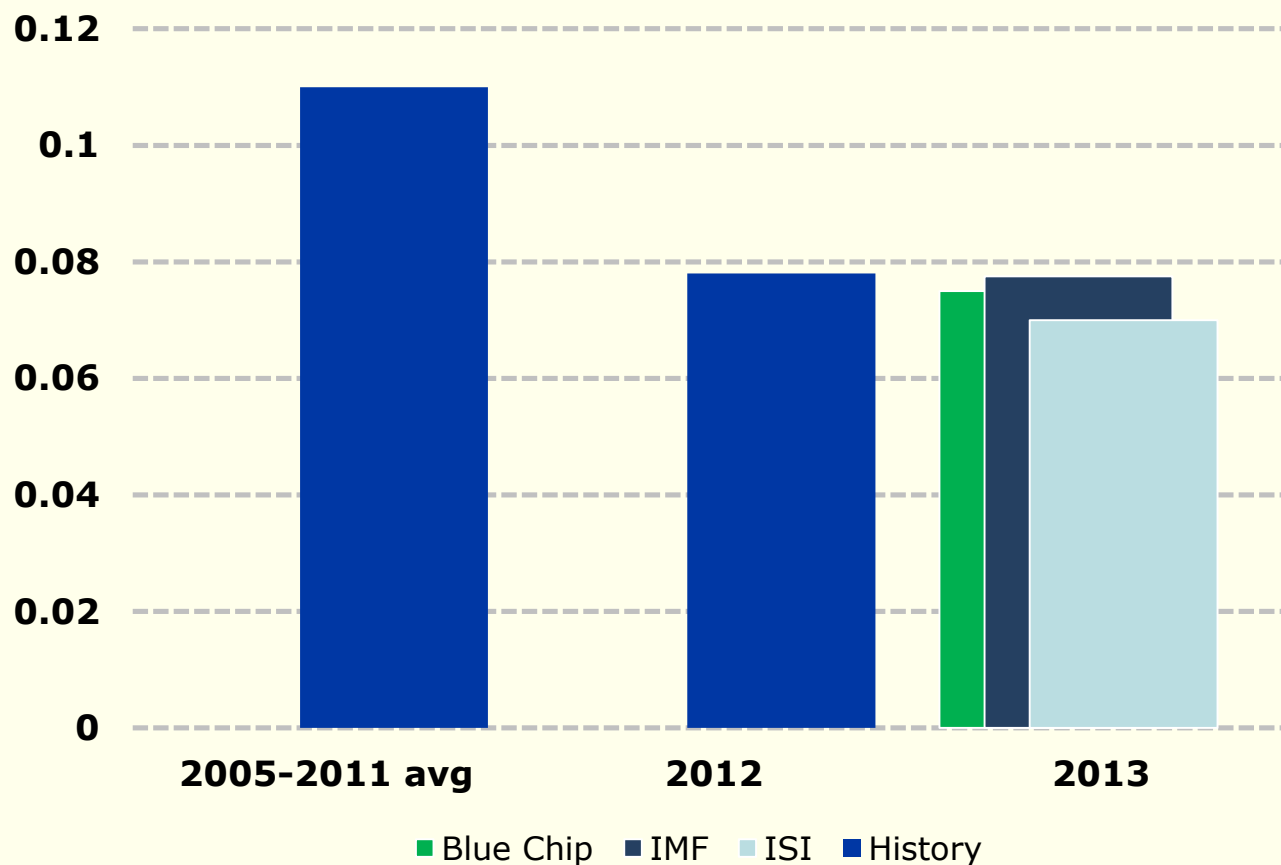
2014: 0.8%



Source: Eurostat; data through 2013Q2



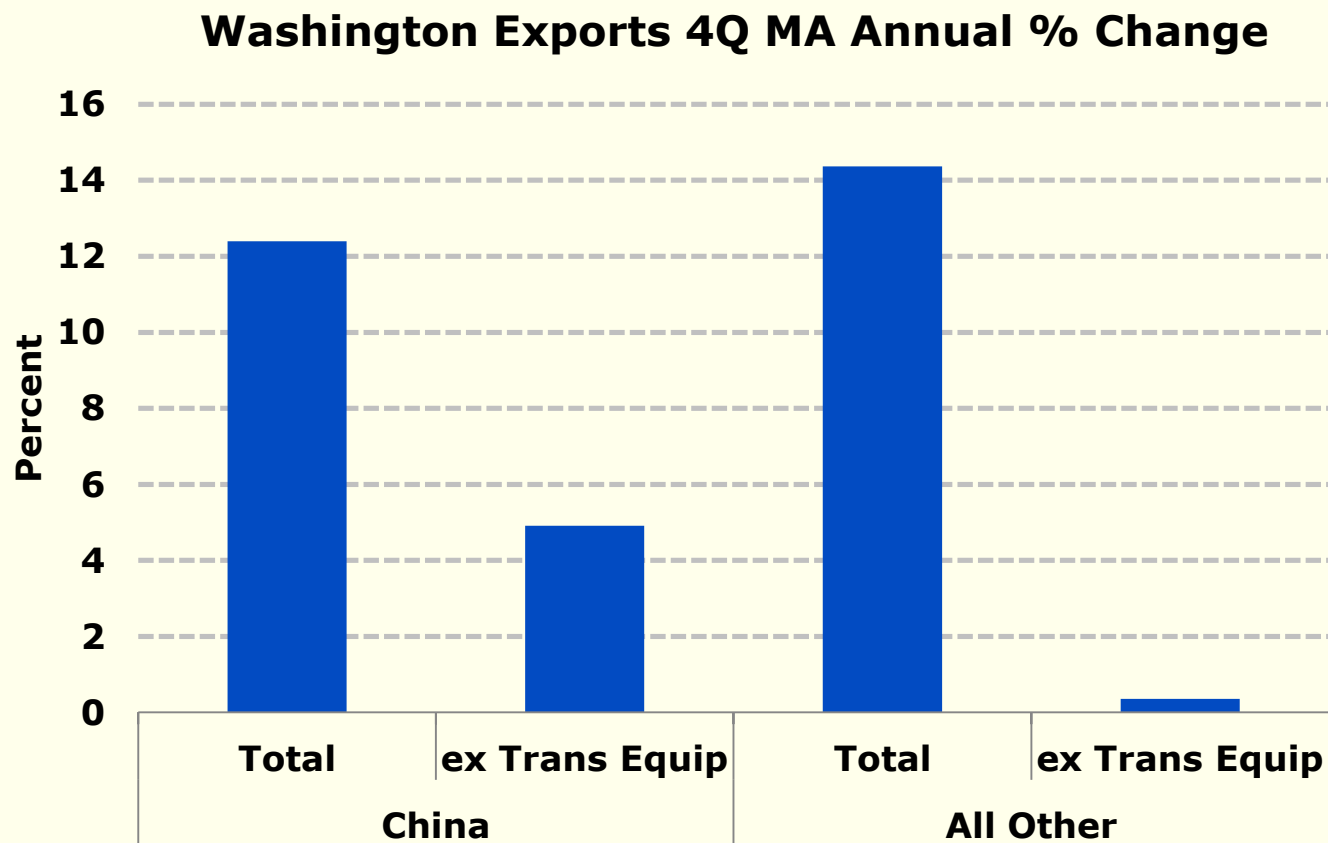
# China's Economic Growth has Slowed



Source: Blue Chip, IMF, ISI; data through 2013



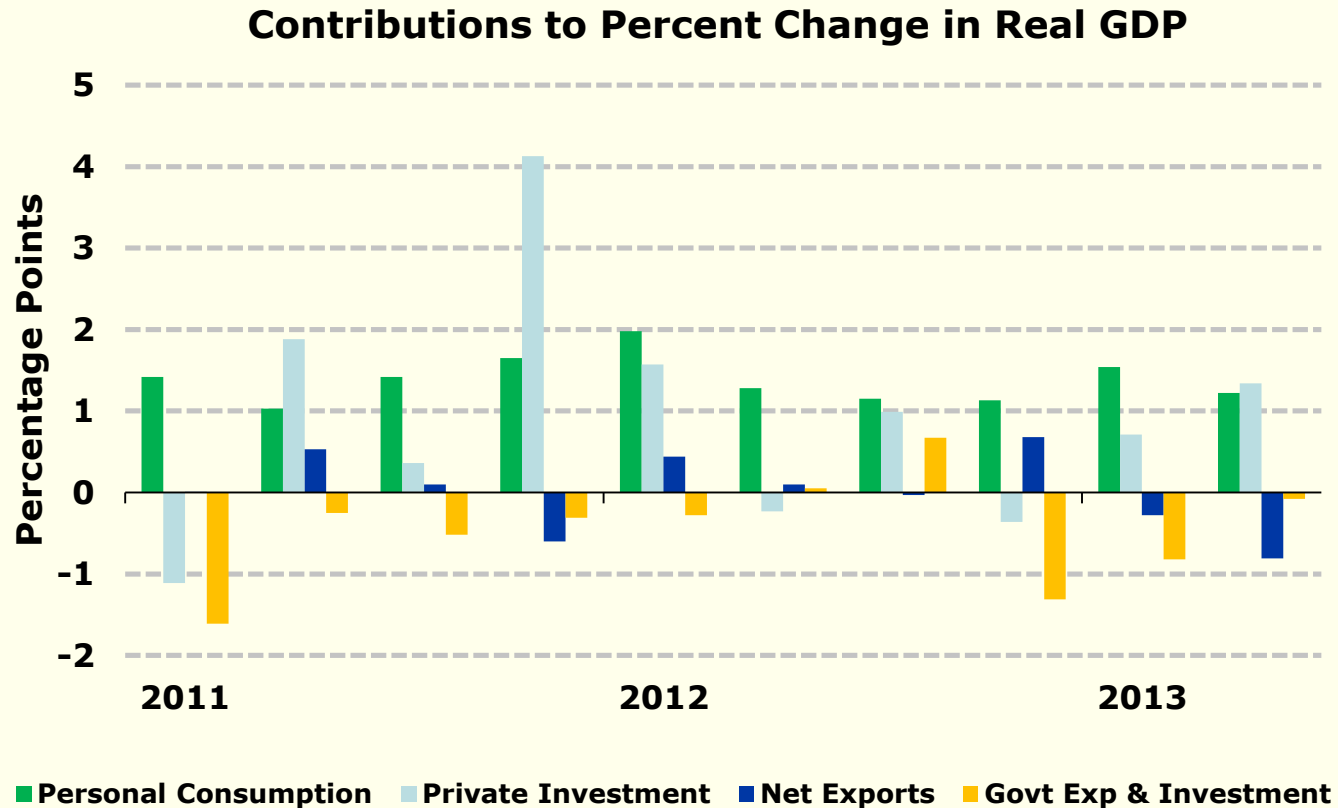
# Excluding aerospace, exports outside of China are weak



Source: Wiser Trade Data; data through 2013 Q2



# Slowing government expenditures a drag on GDP growth



Source: BEA; data through 2013 Q2

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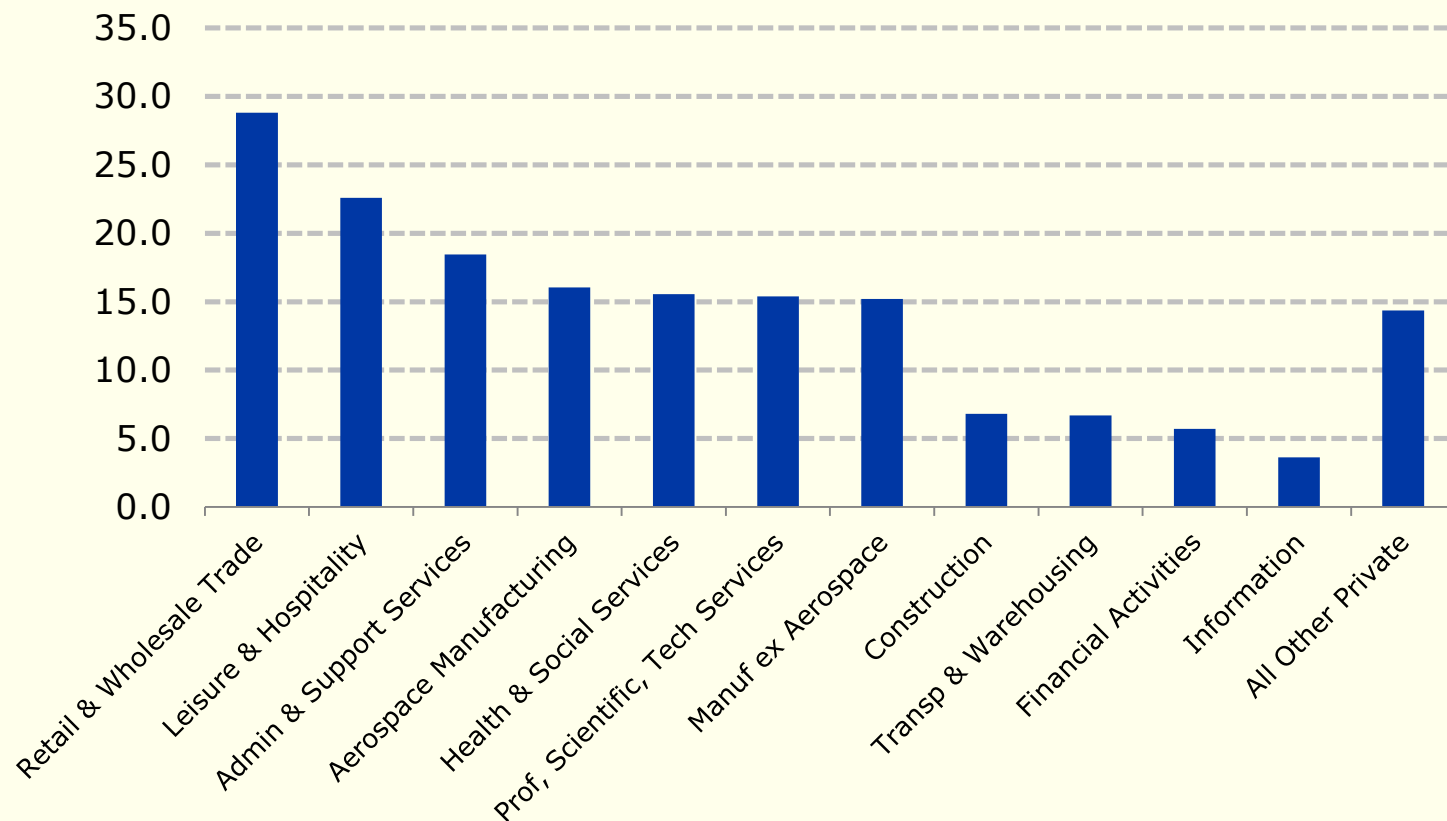




# Washington Employment Trends

Washington has gained 169,000 net private sector jobs since Feb 2010

**Employment Change since Trough (thousands)**



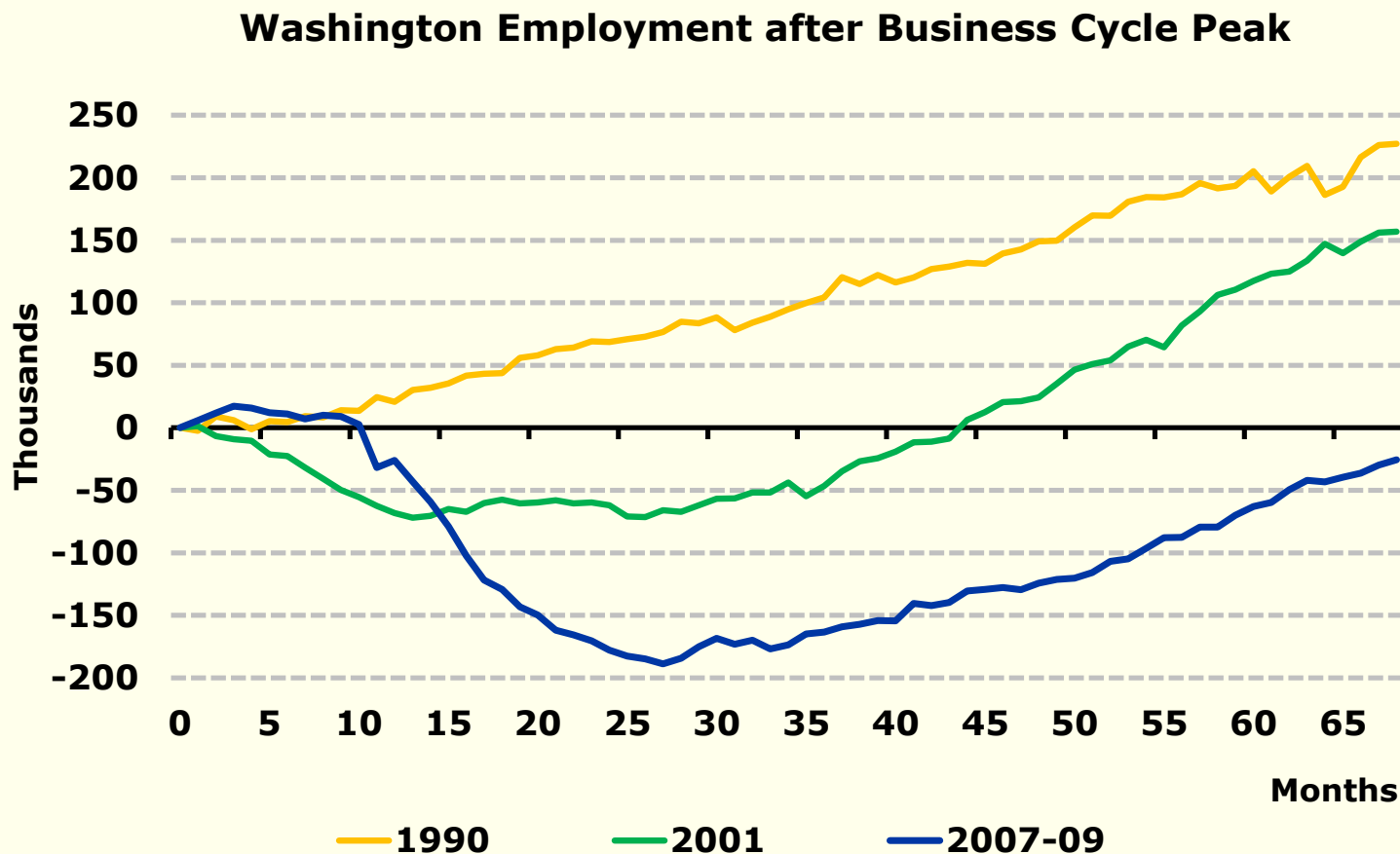
Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through June 2013

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# After 5 years, Washington employment has still not recovered

Washington remains 25,000 jobs below the start of the recession

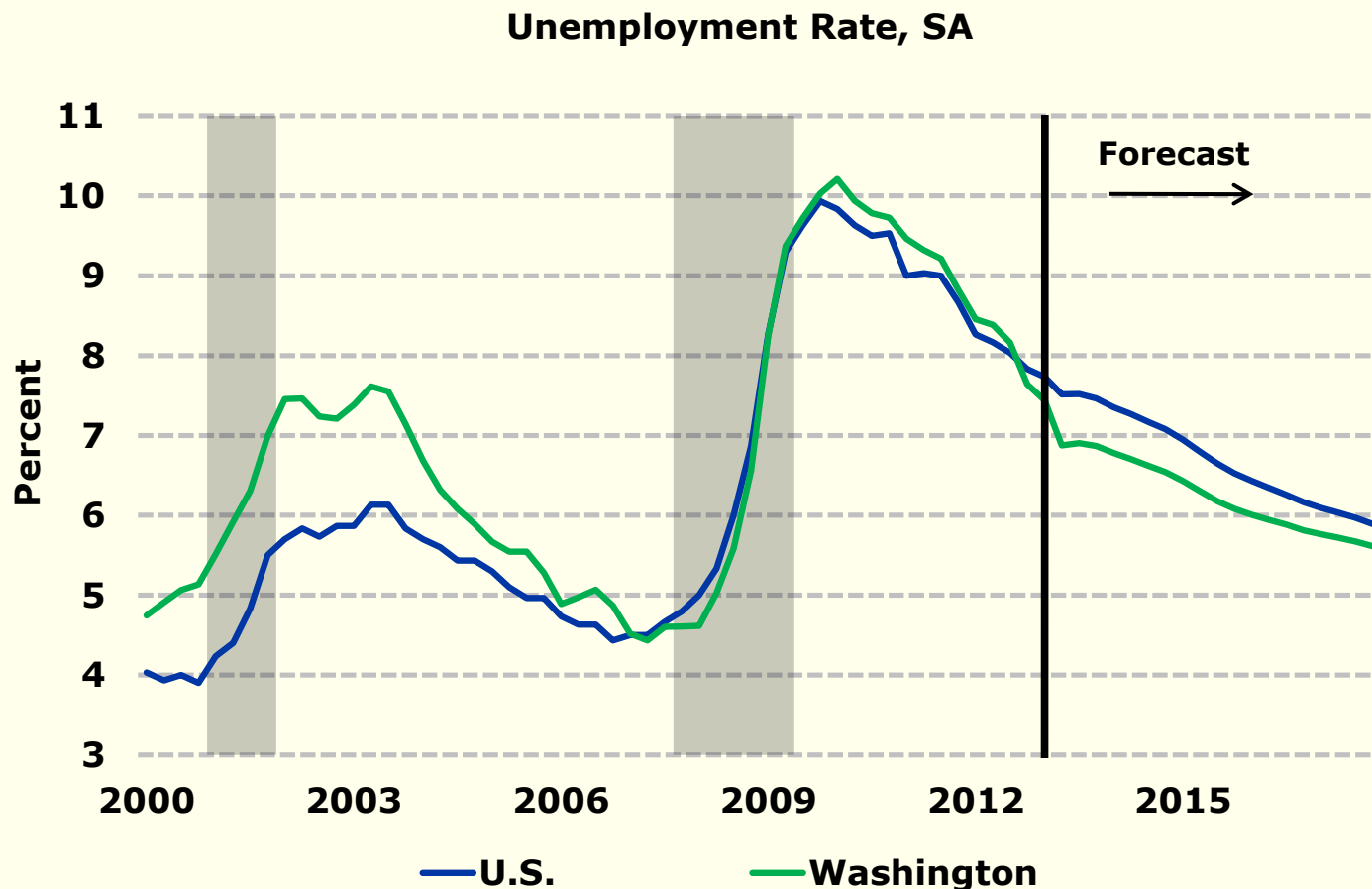


Source: WA ESD, ERFC; data through July 2013

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# Washington unemployment expected to remain below U.S. rate



Source: ERFC June 2013 forecast; historical data through 2013 Q1

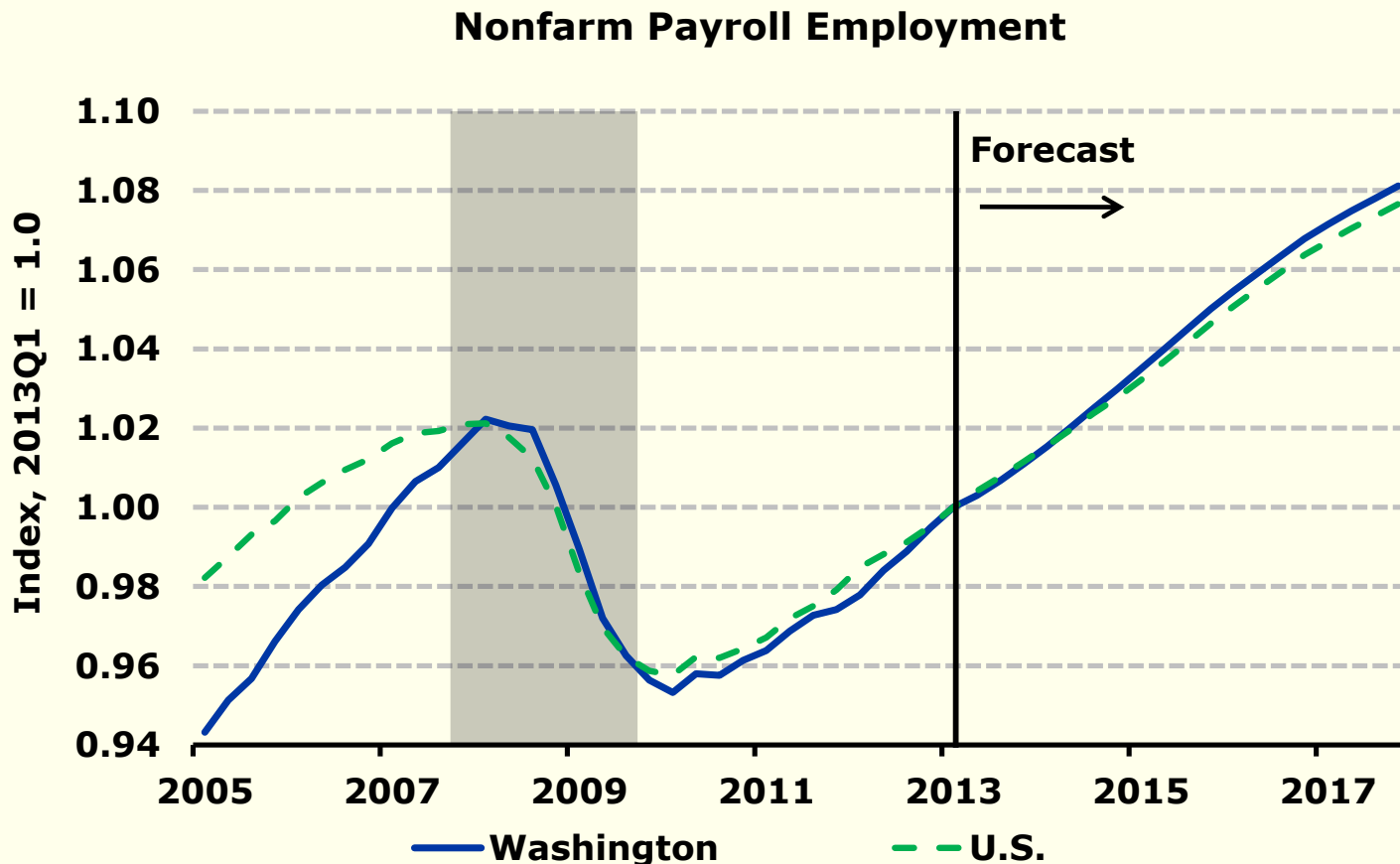


# WA employment will recover slightly faster than the U.S.

Date of  
regaining  
peak:

**WA:**  
2014Q3

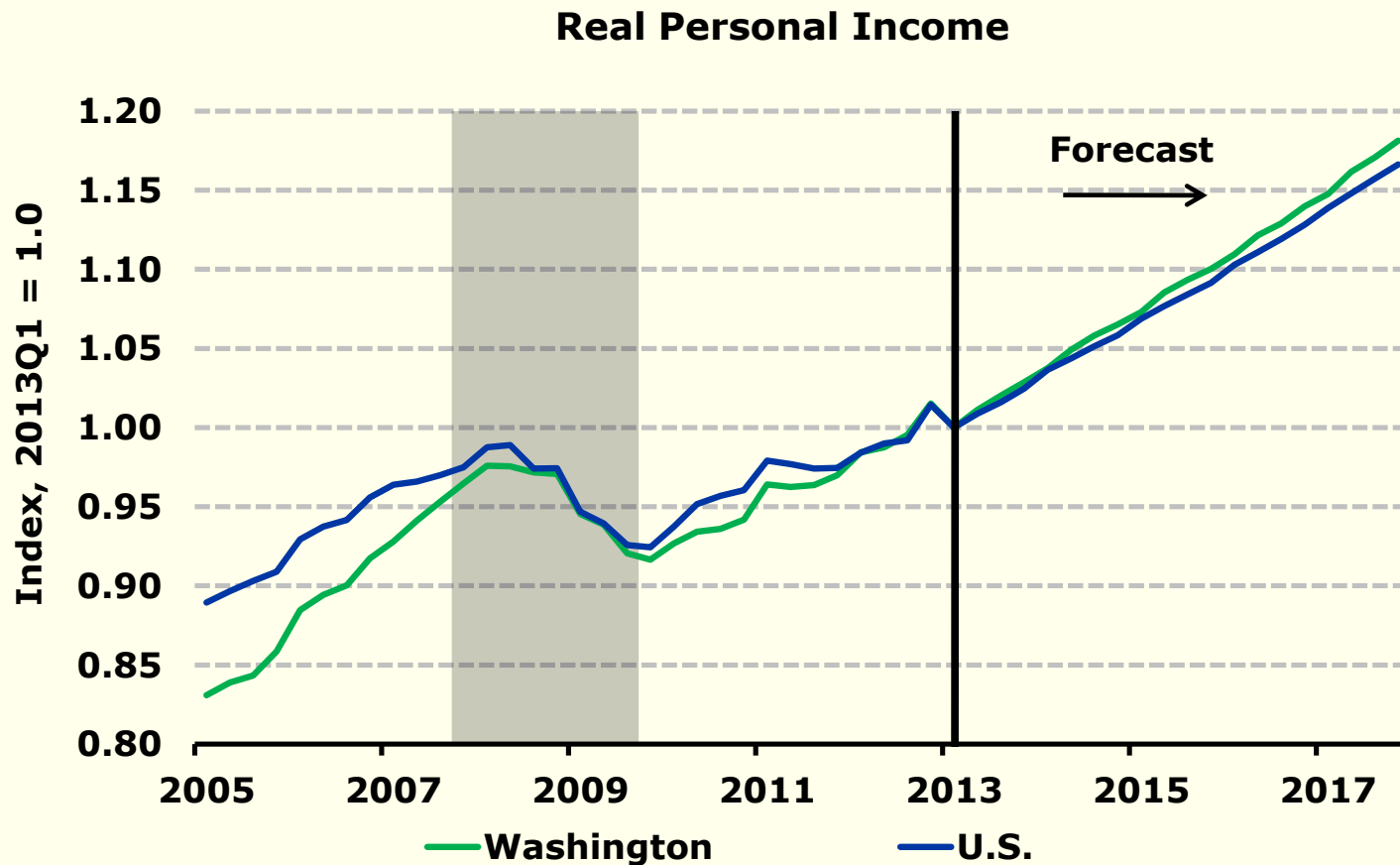
**U.S.:**  
2014Q3



Source: ERFC June 2013 forecast; historical data through 2013Q1



# WA personal income will recover slightly faster than the U.S.

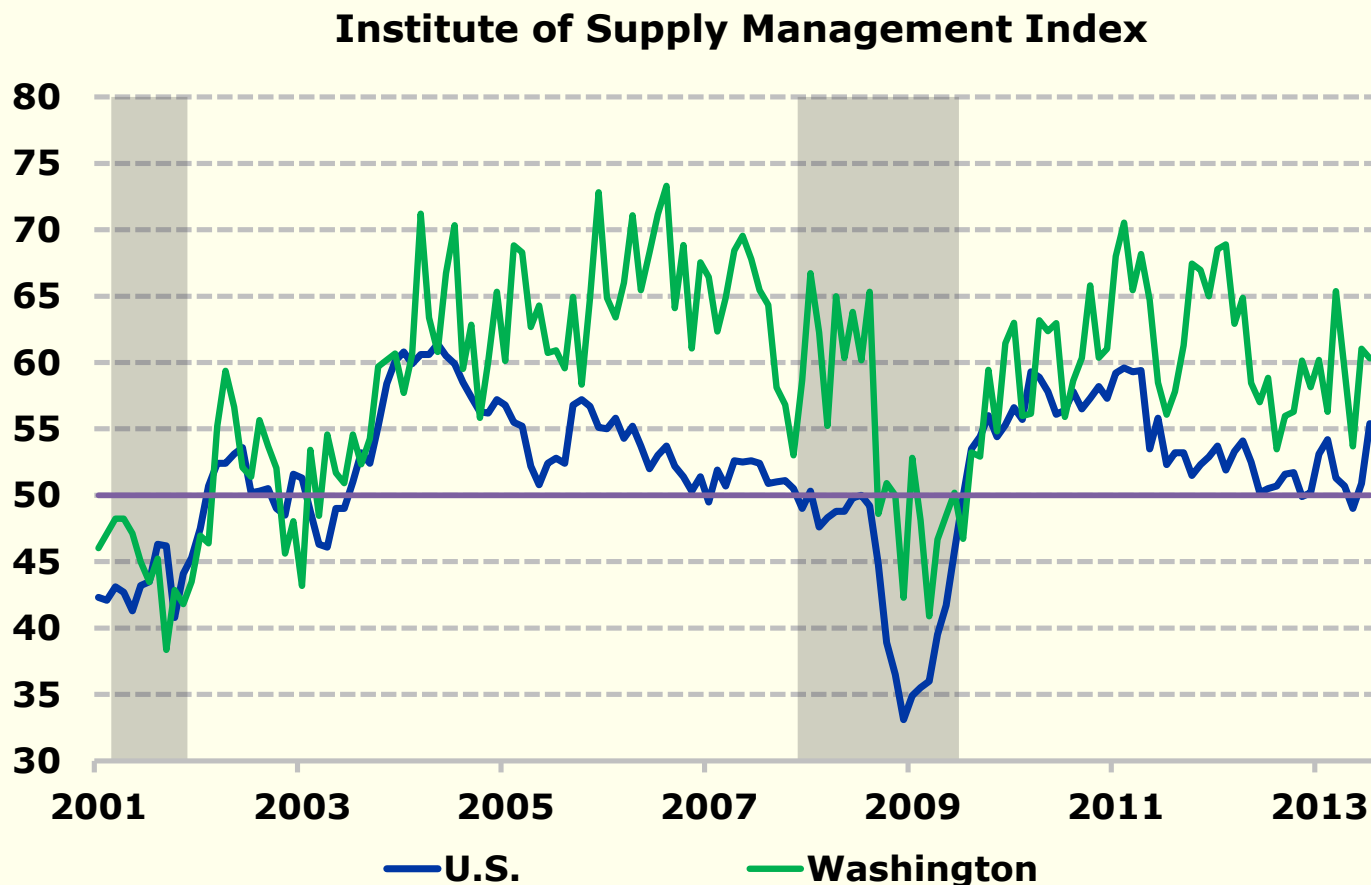


Source: ERFC June 2013 forecast; historical data through 2013Q1



# Manufacturing is stronger in WA than nationally

An index greater than 50, implies growth

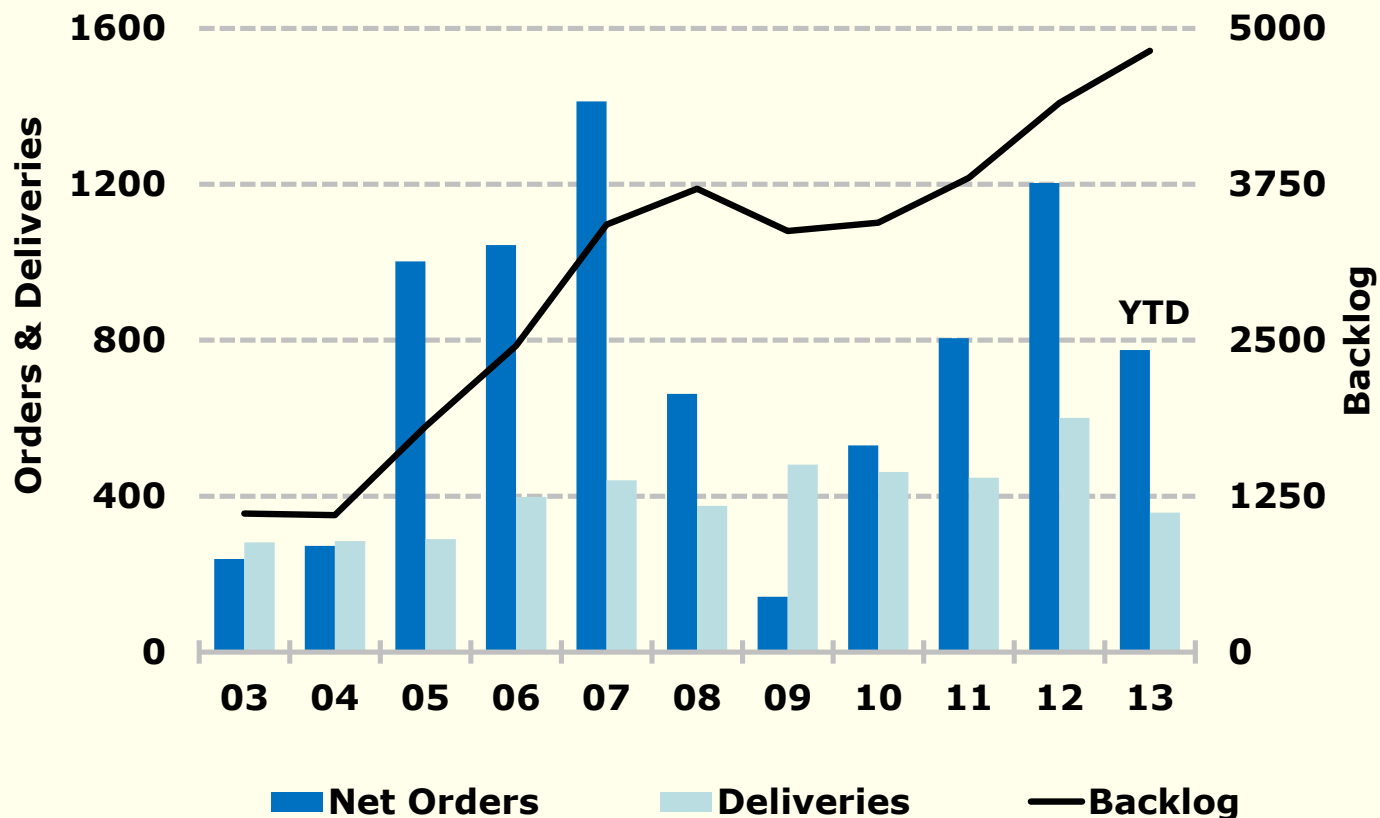


Source: Institute of Supply Management; data through July 2013



# Boeing has over 7 years of commercial orders on its books

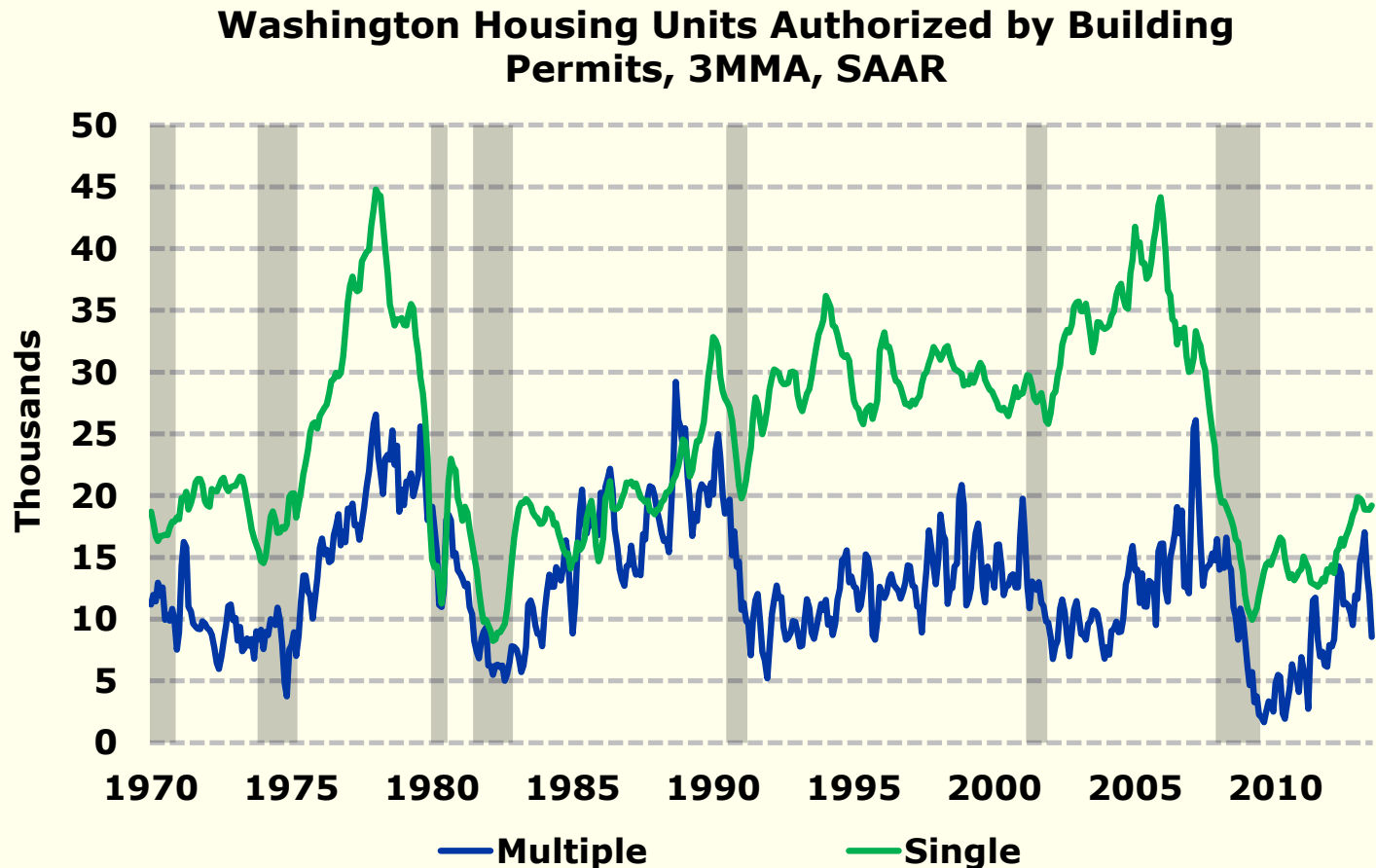
Excludes the military's new refueling tanker



Source: Boeing, data through July 2013



# WA building permits are improving



Source: U.S. Census Bureau; data through June 2013

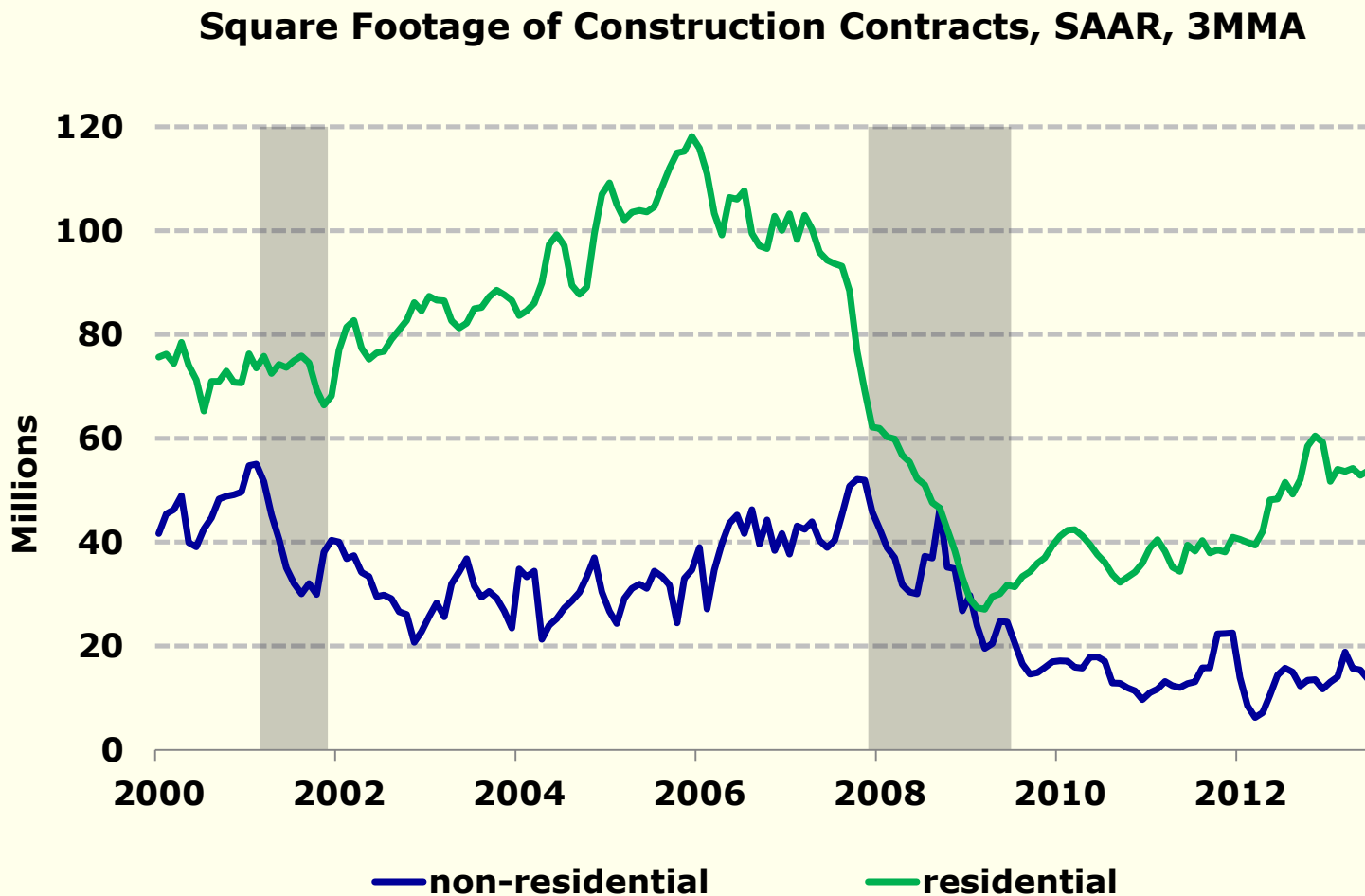




# Contract data: residential construction stronger, non-residential construction still weak

Residential square footage is up 11%, and value up 8% year over year (3mma).

Non-Residential square footage is down 5% and value is down 19% year over year (3mma).

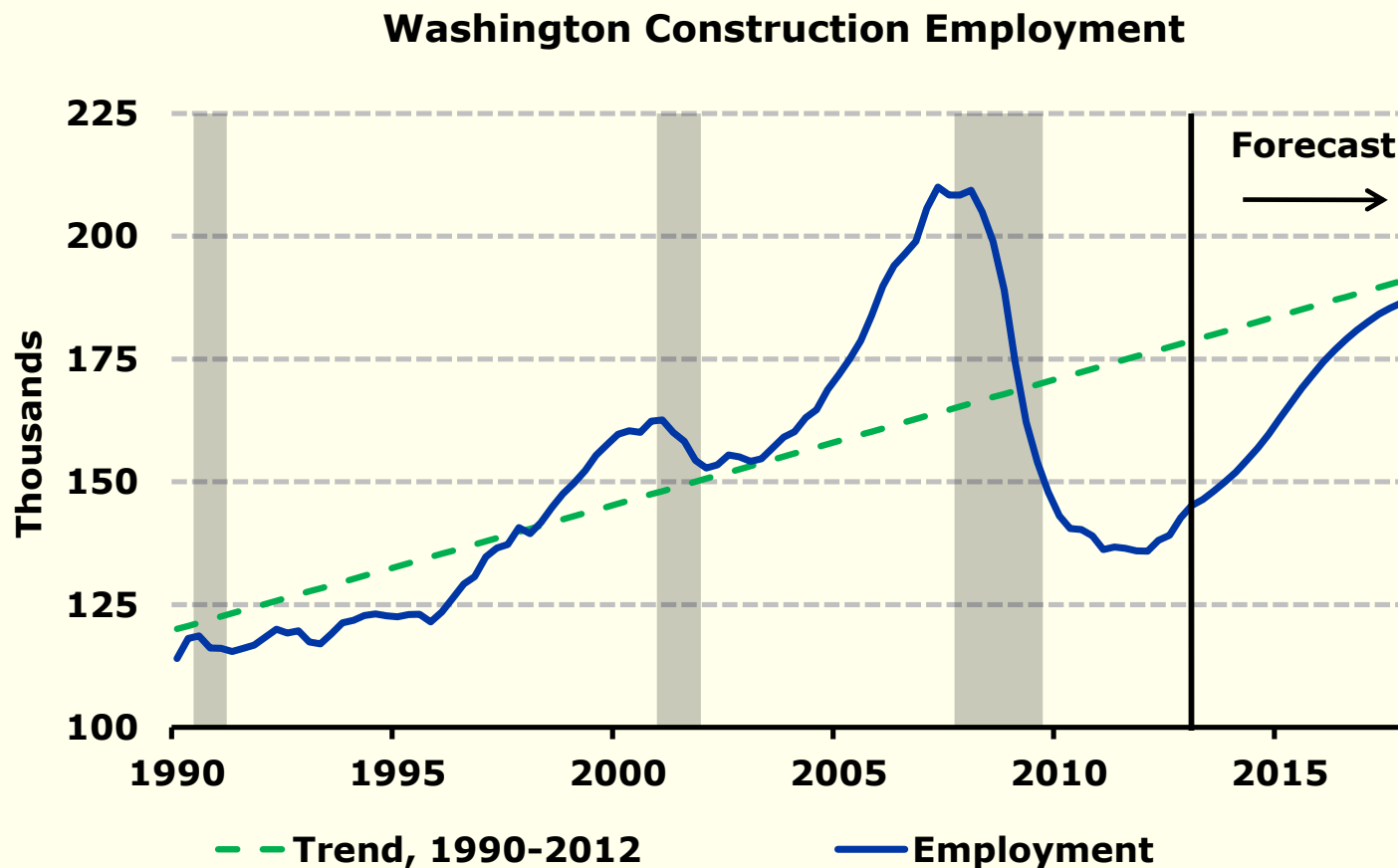


Source: Dodge, ERFC; data through June 2013

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# Washington construction employment is recovering

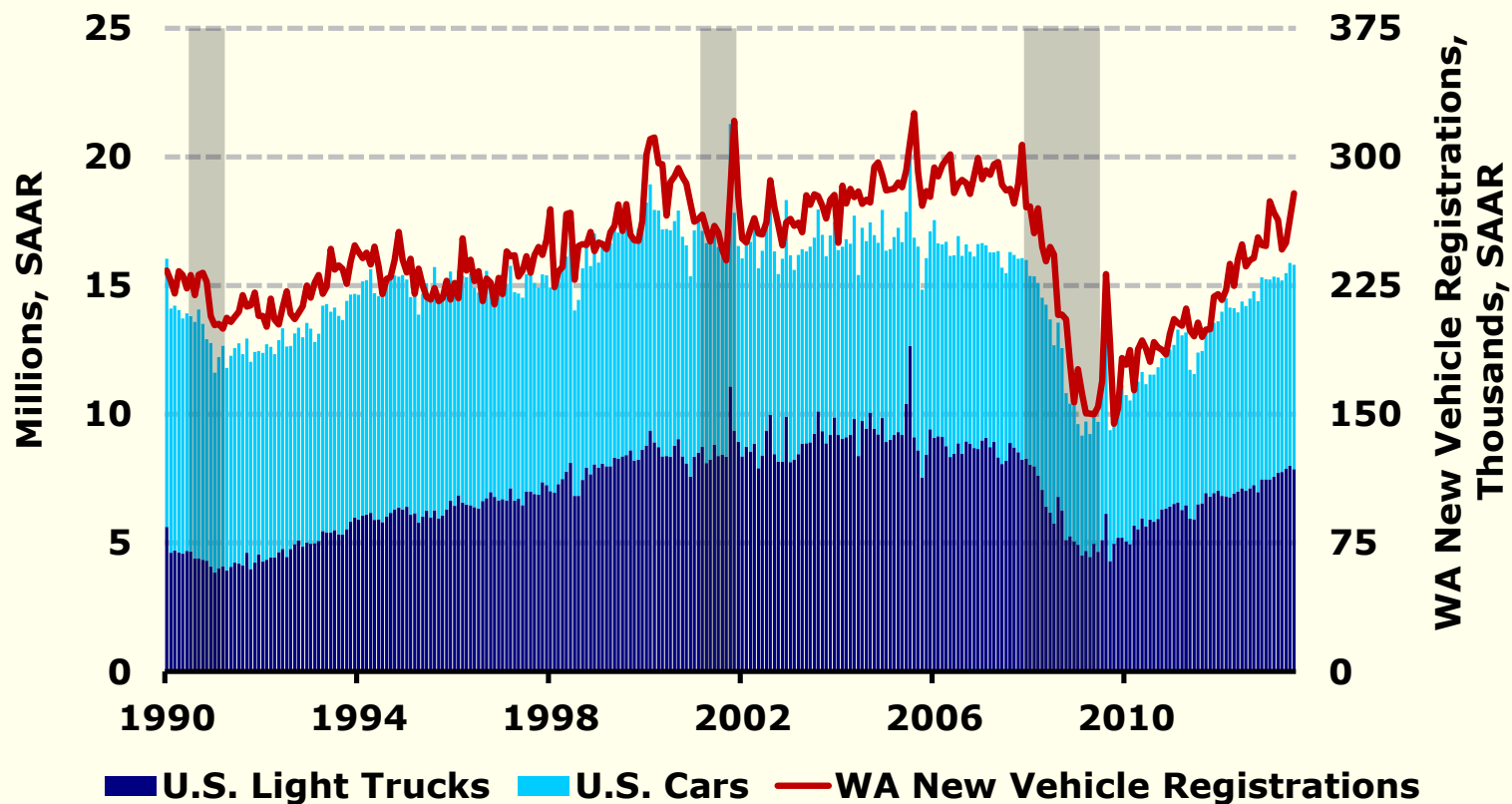


Source: ERFC June 2013 forecast; historical data through 2013Q1



# Vehicle sales continue their upward trend

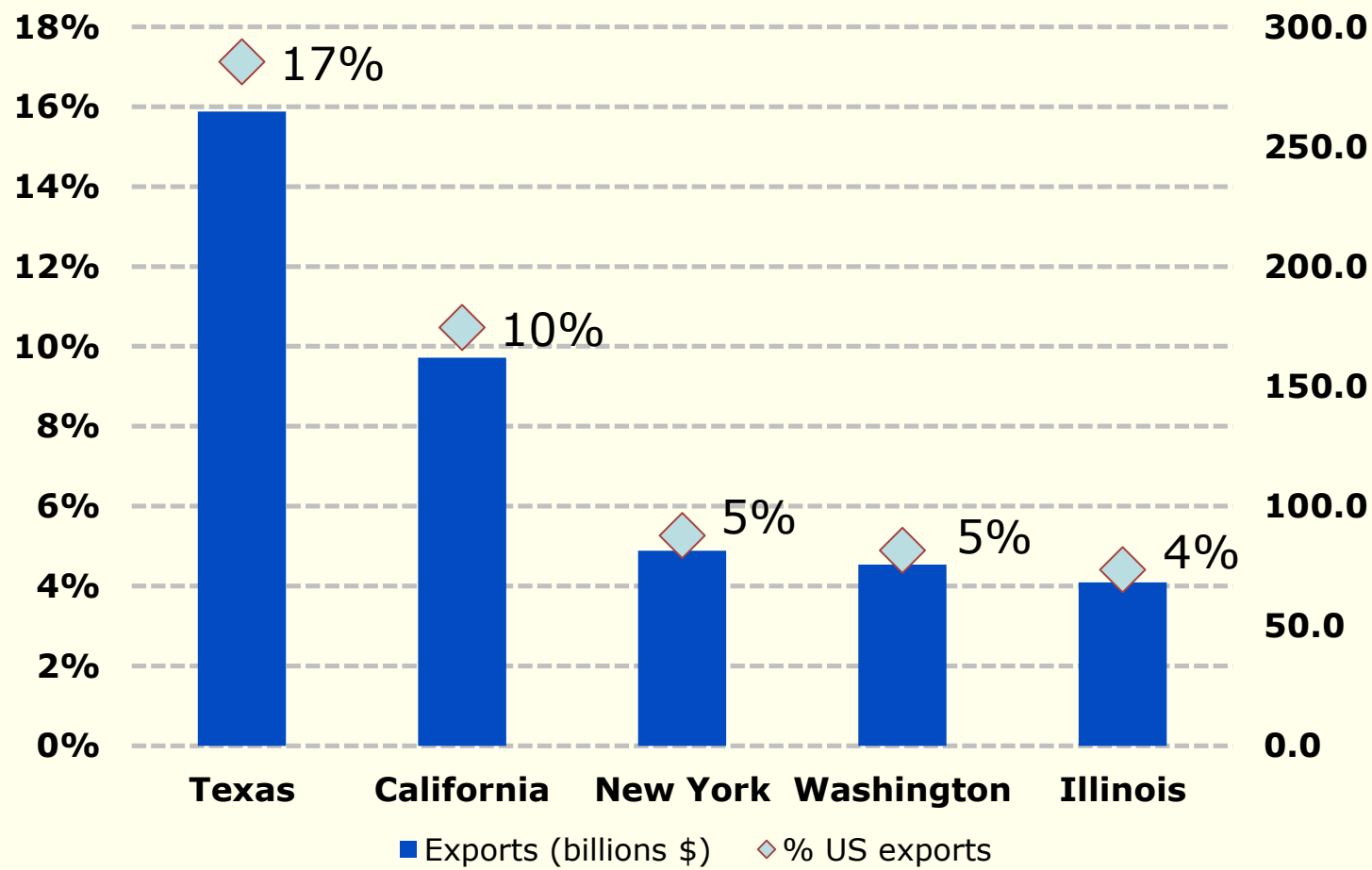
WA new vehicle registrations in July were up 18% year-over-year.



Source: Autodata Corporation, WA DOL; data through July 2013



# Top 5 exporting states, 2012

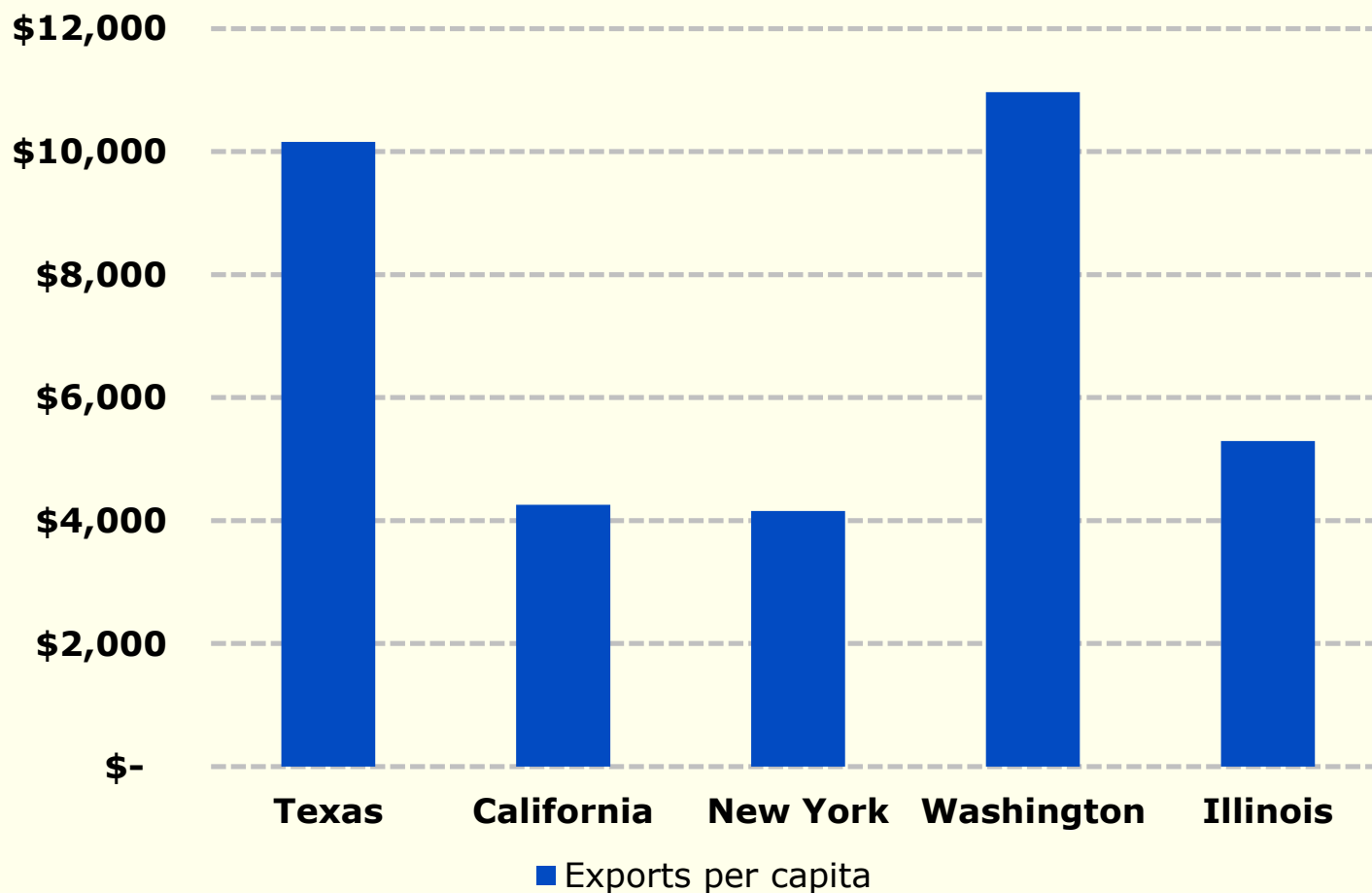


Source: WISER trade data

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# Exports per capita, top 5 exporting states (2012)



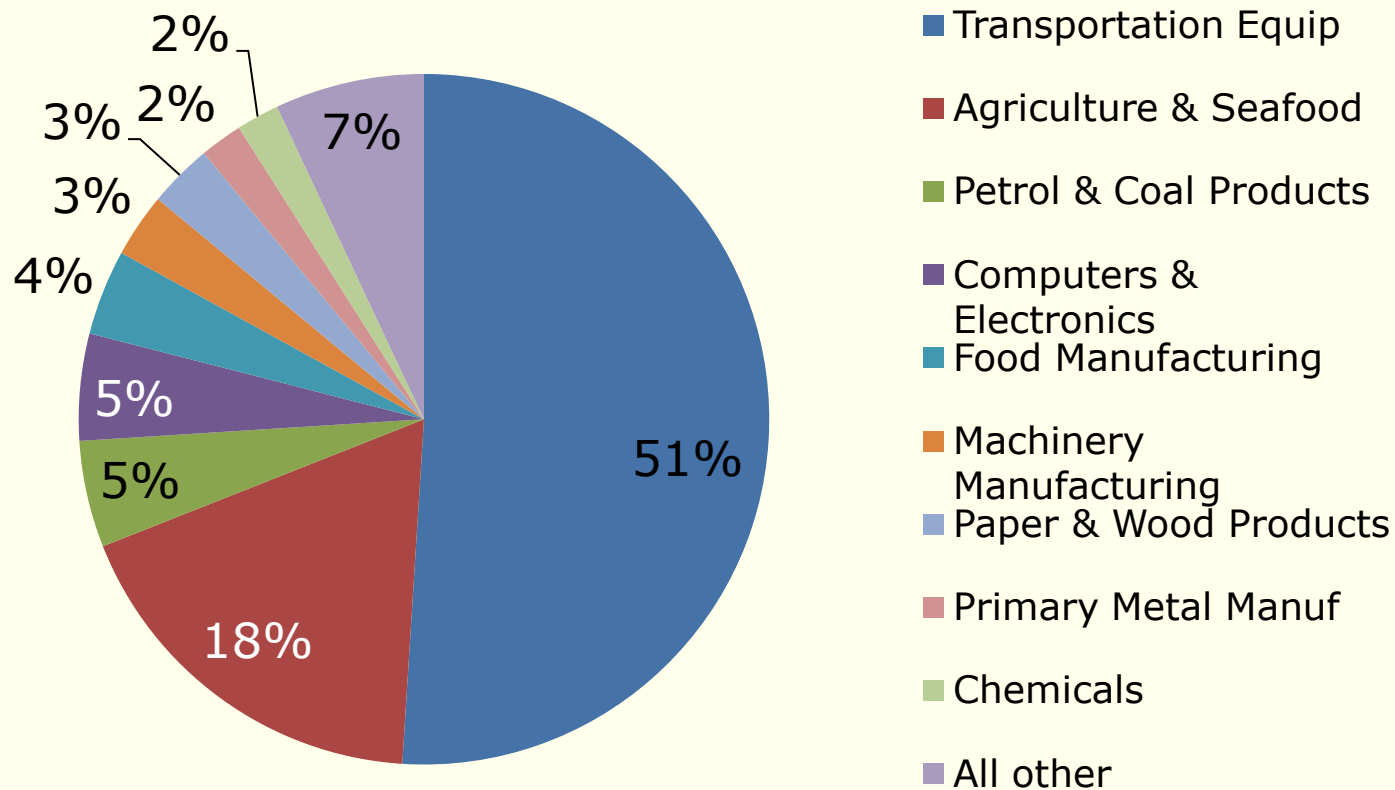
Sources: WISER trade data, U.S. Census

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# Washington exports by industry

## 2012 Exports



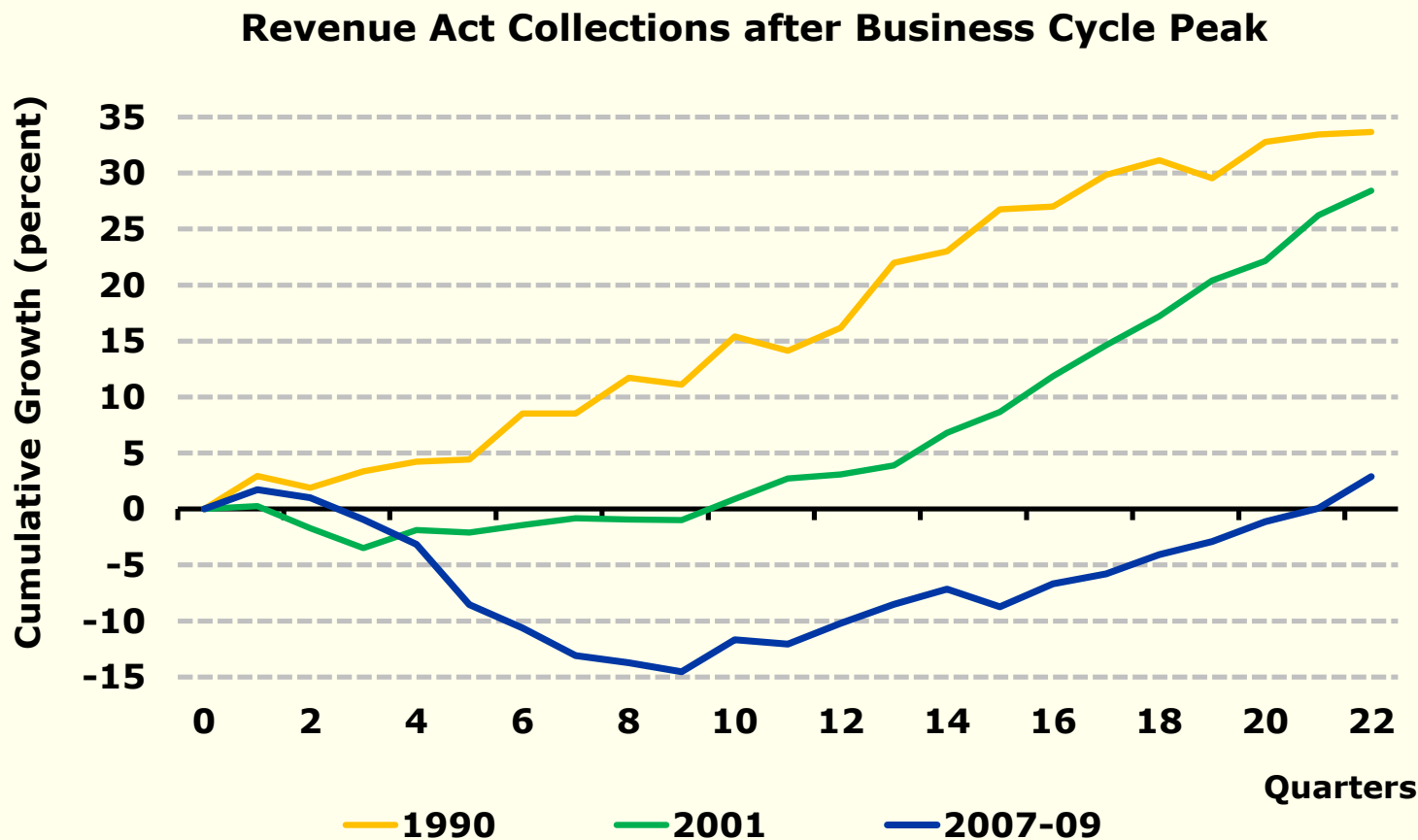
Source: WISER trade data

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# Revenue collections have been weak compared to past recoveries

Revenue Act collections have now exceeded their previous peak reached in Q1 2008



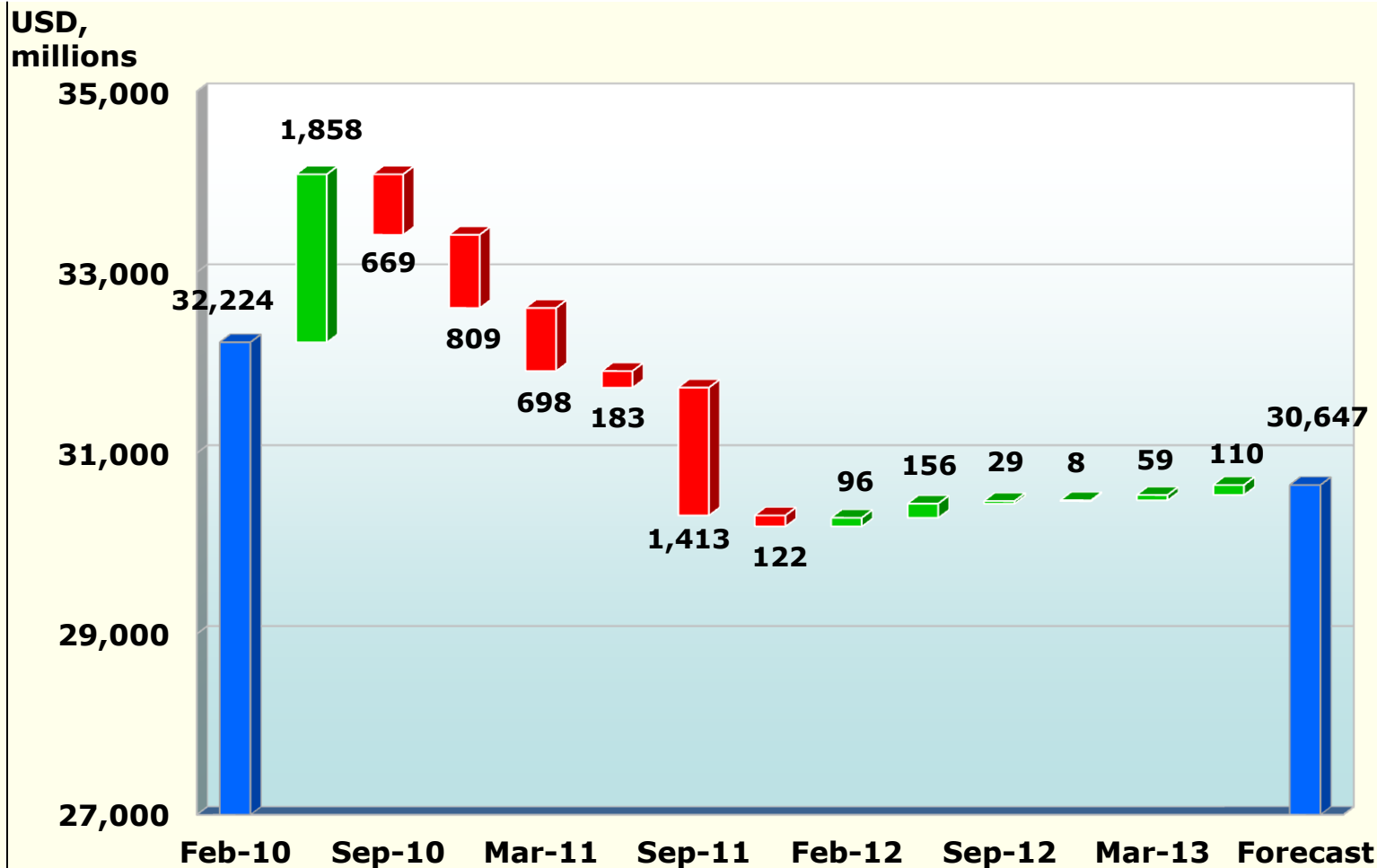
Source: ERFC; data through 2013 Q1

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# Forecast revisions to the 2011-13 biennium

GF-S  
New  
Definition



Source: ERFC June 2013 forecast

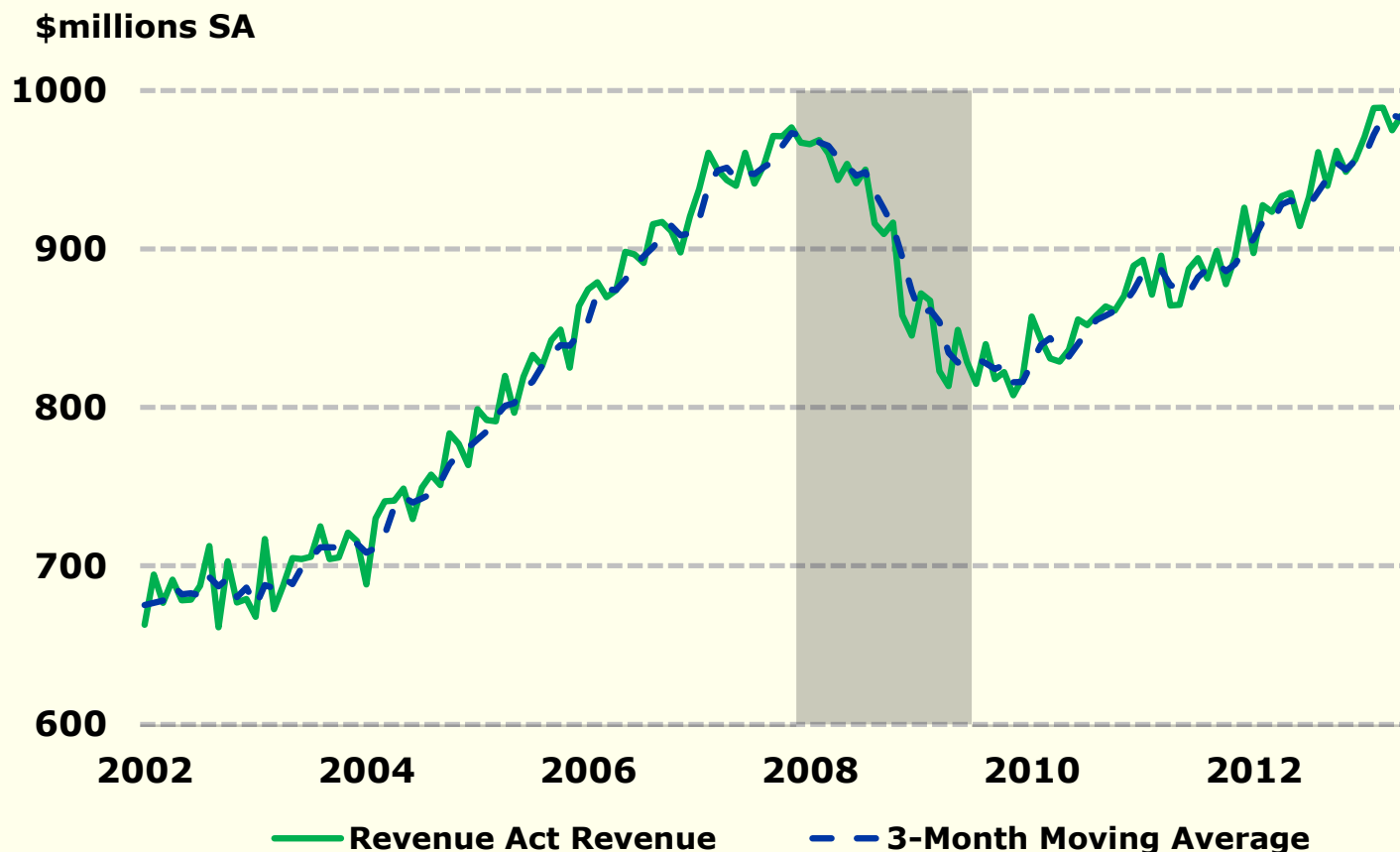
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# Revenue Act collections are still on an upward trend

Collections were up 7.1% year-over-year for first quarter 2013 activity (February 11, 2013–May 10, 2013 collections)



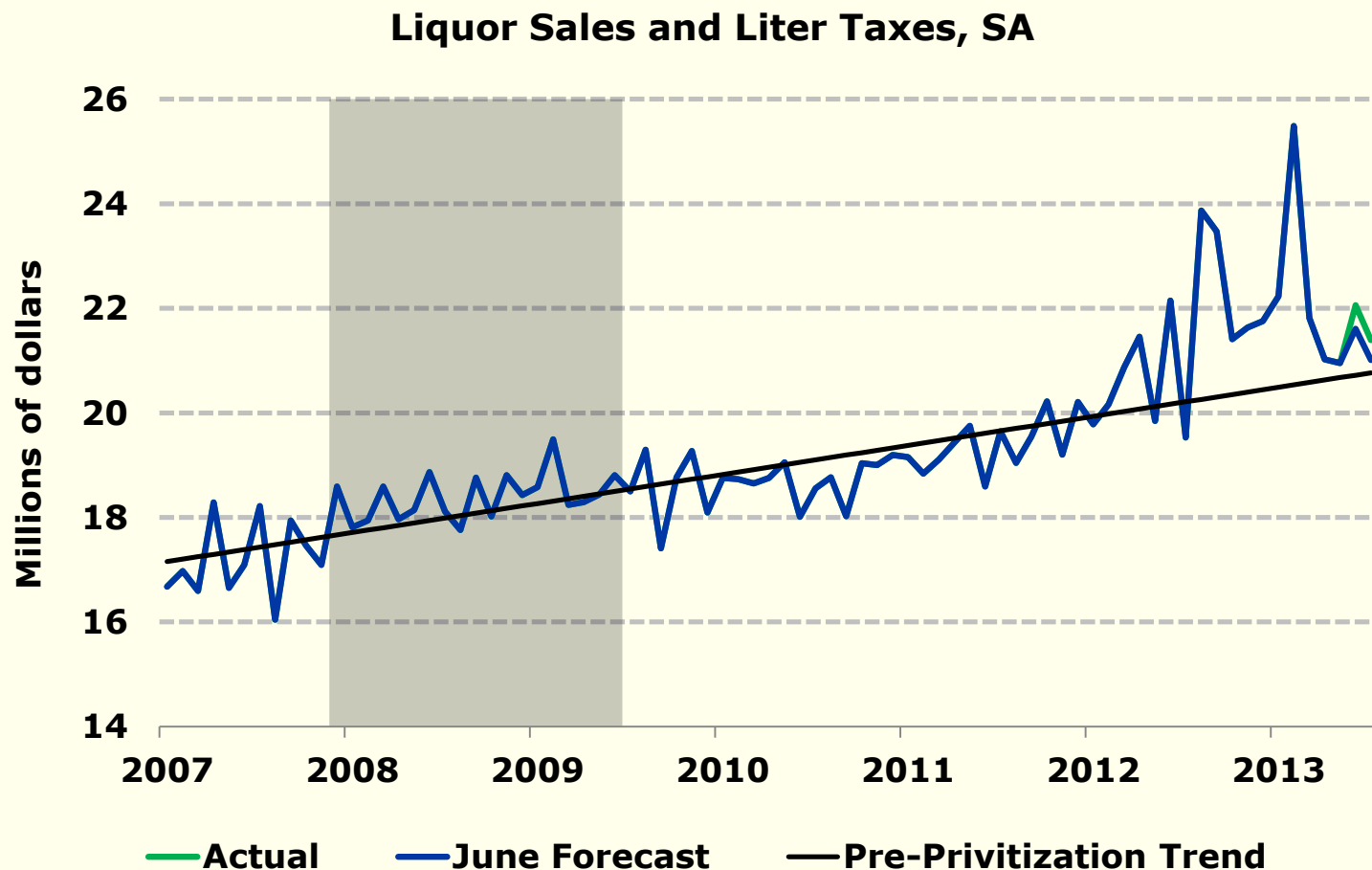
\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated May 2013 activity

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# Revenue for liquor sales has been volatile recently



Source: DOR, ERFC; data through July 2013

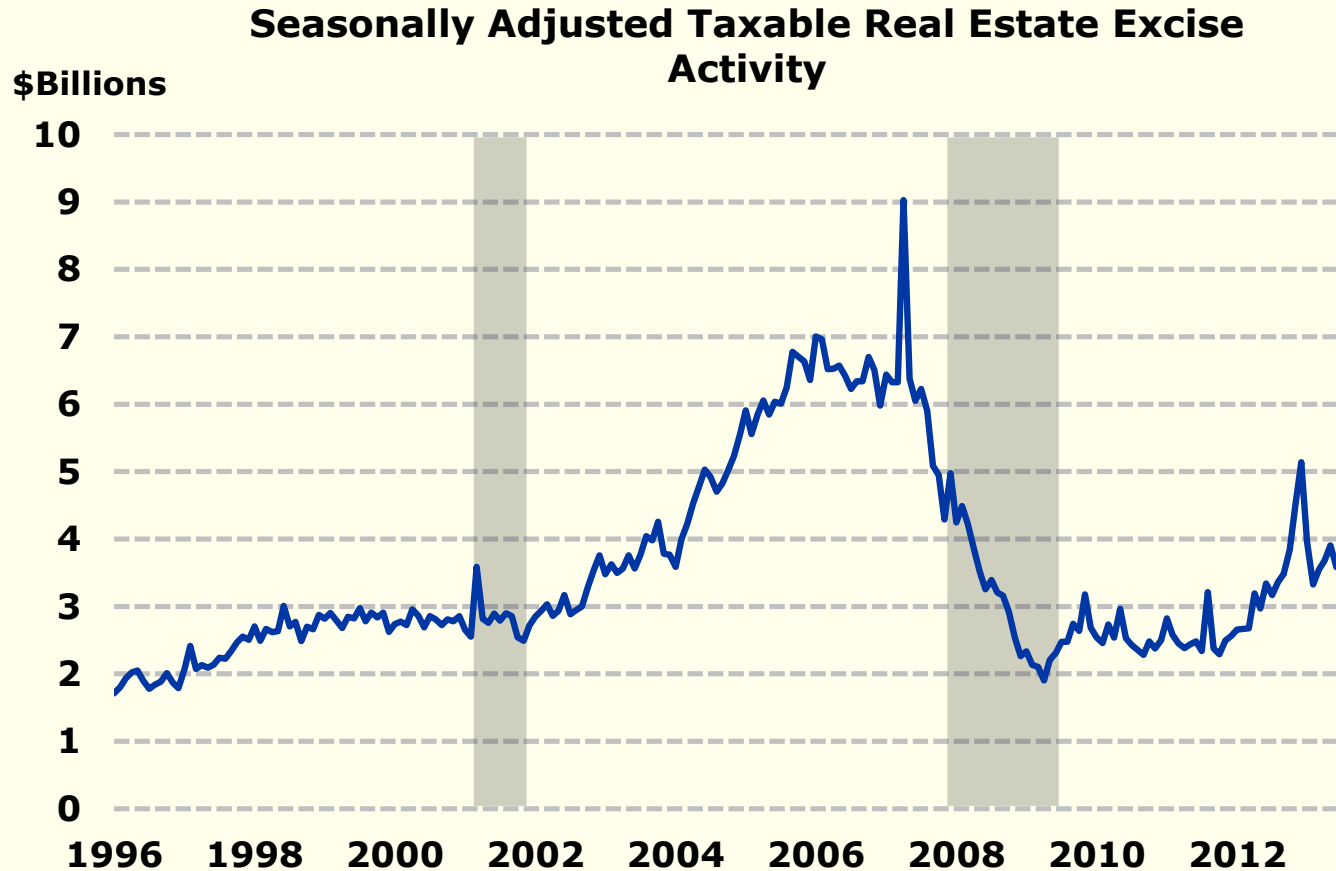
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# REET still showing growth after end of year rush

2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013, with a particularly large rush at the end of the year.

Sales since the rush have been stronger than expected but a current shortage of houses for sale might limit short-term growth.

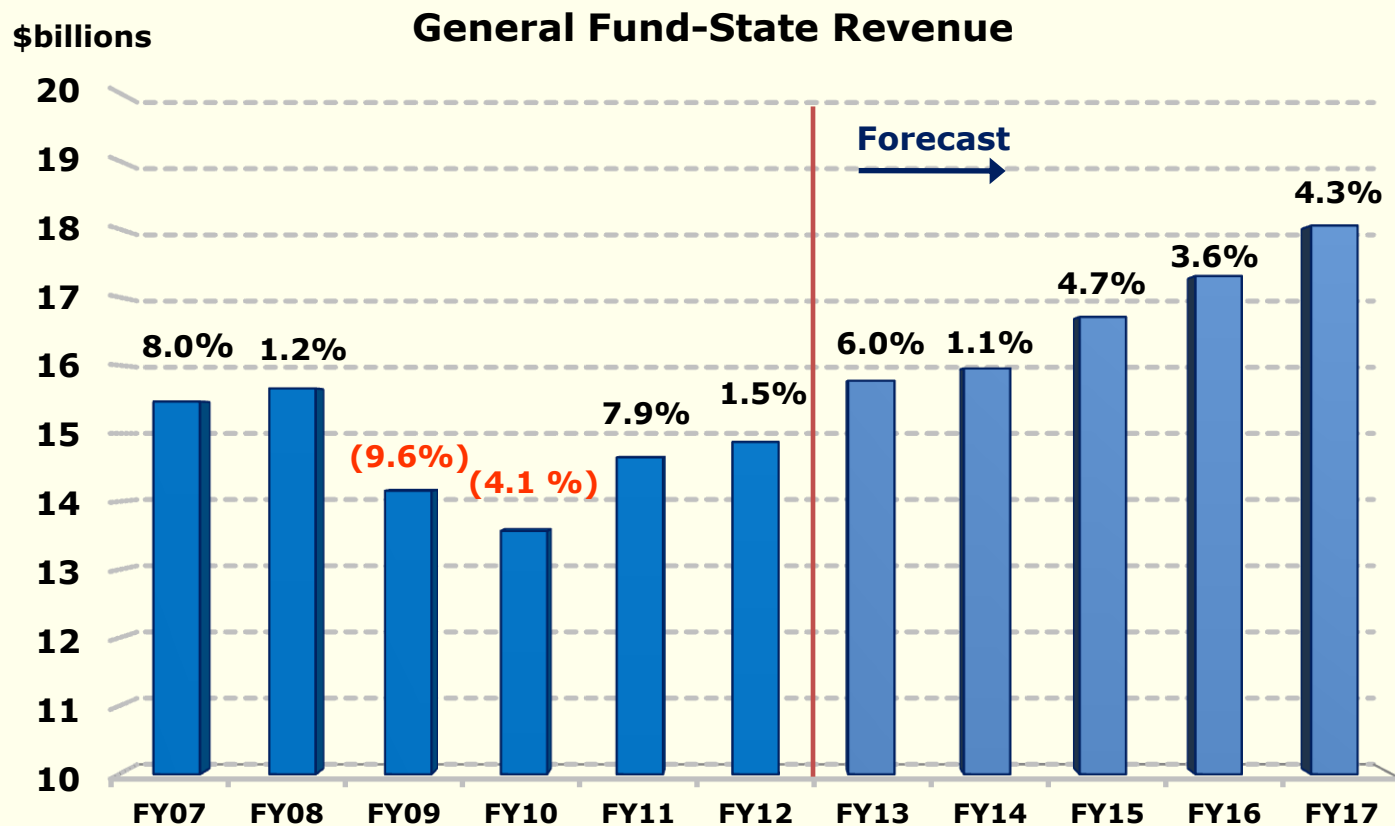


Source: ERFC; Monthly data through June 2013 preliminary



# General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-17  
Source: ERFC forecast, June 2013

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# Budget Outlook

Use June 2013 revenue forecast

- Assume minimum 4.5% growth in 2015-17

OFM/House/Senate forecast of 2015-17 budget

- Based on FY 2015 appropriations

## Near GF-S & Opportunity Pathways Account, Dollars in Millions

	2013-15	2015-17
Projected Unrestricted Ending Balance	48	388
Plus Budget Stabilization Acct	626	1,326



# Conclusion

- The state's economy continues to grow at a slow but steady pace but has lower unemployment and higher income growth than the U.S as a whole
- Over the next several years, Washington is expected to slightly outperform the U.S. economy
- Positives include housing and construction, auto sales, and software; aerospace and non-education government employment continue to contract
- Revenue growth is expected to continue at a slow but steady pace consistent with economic activity



# Budget Outlook Detail

Budget Outlook Based on 3ESSB 5034 (Assumes 4.5% Revenue Growth)					
(Near GF-S & Opportunity Pathways Account, Dollars in Millions)					
	2011-13		2013-15		2015-17
Revenues: June 2013 Forecast + Beginning Balance	31,055		33,242		35,895
Additional Based on 4.5% Growth Rate Assumption					381
Other Resources and 2013 Session Changes	345		299		25
Total Revenues and Resources	31,400		33,539		36,300
Enacted Appropriations	31,471		33,631		
Continue FY 2015 Appropriation Level					34,332
Adjustments to FY 2015 Baseline					1,720
Actual/Estimated Reversions	-166		-140		-140
Revised Appropriations	31,305		33,491		35,912
Projected Unrestricted Ending Balance	95		48		388
Unrestricted Ending Balance + Budget Stabilization Acct	364		626		1,326